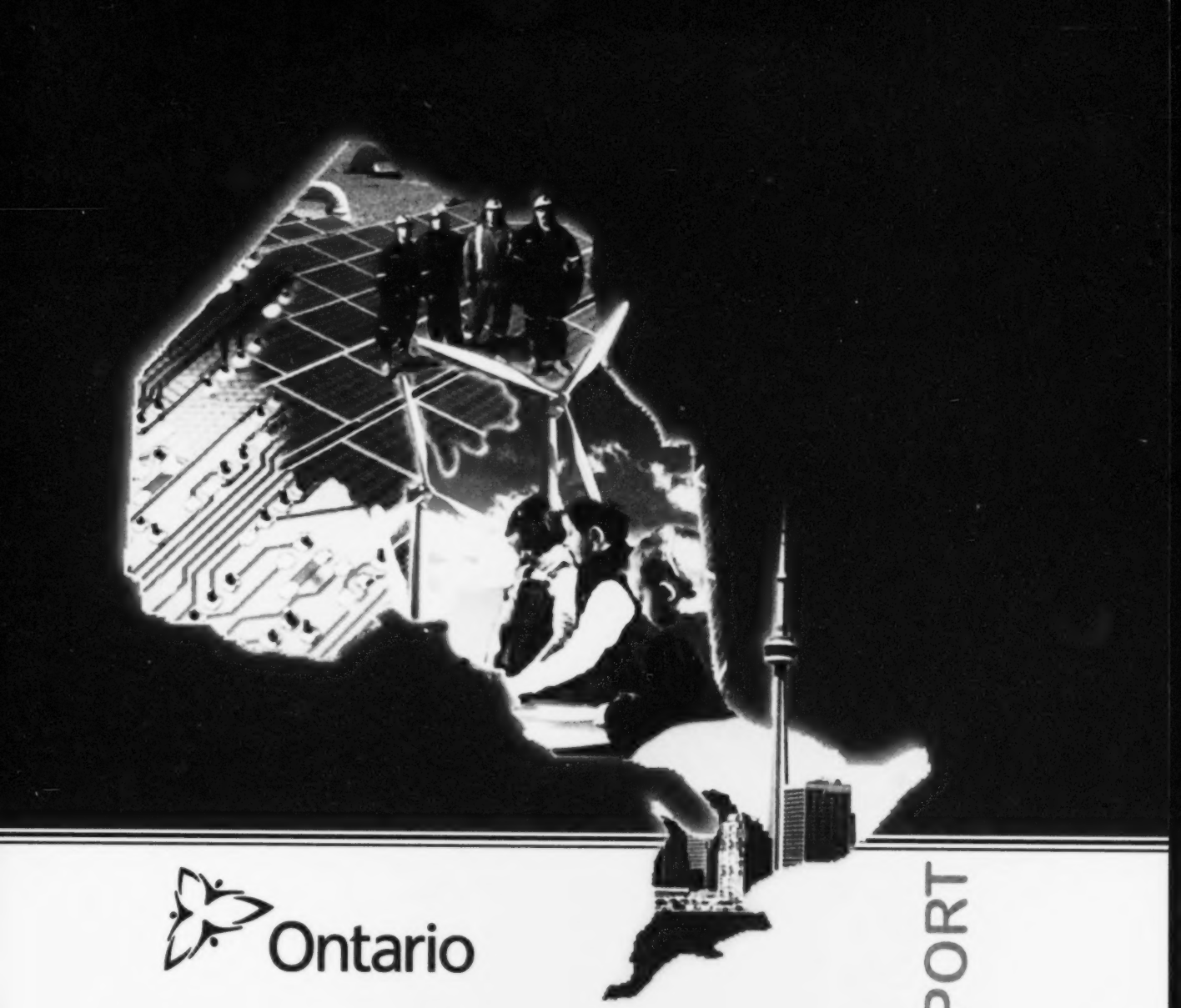

Ontario

# 2010 ANNUAL REPORT

# Ontario Financing Authority

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# Mandate

The Ontario Financing Authority (OFA) was established by the *Capital Investment Plan Act, 1993* (CIPA), and performs the following activities:

- conducts borrowing, investment and financial risk management for the Province of Ontario (the Province);
- manages the Province's debt;
- provides financial and centralized cash management services for the Provincial government;
- advises ministries, Crown agencies and other public bodies on financial policies and projects;
- assists Crown agencies and other public bodies in borrowing and investing;
- acts as an intermediary for the Province in lending to certain public bodies; and
- invests on behalf of some public bodies.

The OFA also provides a broad range of financial services to the Ontario Electricity Financial Corporation (OEFC) and to Infrastructure Ontario (IO).

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# Statement from the Chair and the Chief Executive Officer

Ontario successfully completed its largest annual borrowing program in 2009–10 despite continuing challenges in global financial markets. We did so mainly through greater diversification in international bond markets and by being responsive to our bond investors.

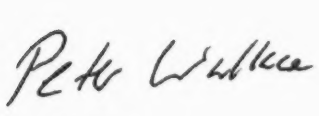
We raised $43.8 billion on behalf of the Province and OEFC, completing the long-term borrowing requirements for the fiscal year. Total savings relative to the performance benchmarks for borrowing, money market and debt management activities were $80 million.

In 2009–10, the OFA assisted ministries in implementing cost-saving measures for program payments. The OFA also supported the government's priorities by providing financial advice and services to a number of public sector organizations. The OFA continued the review of business cases for borrowing requests from public bodies, such as colleges, school boards and Crown corporations. This resulted in 30 loans to public bodies totalling $554 million. We also provided financial advice on government initiatives related to the electricity sector and a loan guarantee program to facilitate Aboriginal participation in energy projects.

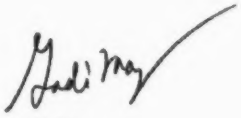
In 2010–11, the OFA will continue to provide cost-effective borrowing, debt management and other financial services for the Ontario government. The long-term borrowing requirement is forecast at $39.7 billion. To meet our borrowing requirements, we will continue to be flexible, monitoring domestic and international markets, issuing bonds in different terms and currencies and responding to investor preferences. Diversification of borrowing sources will continue to be a primary objective in 2010–11. Depending on market conditions, the OFA plans to borrow at least 50 per cent in the domestic market.

We will also continue to engage in public-sector financing initiatives and provide advice and support on financial aspects of electricity sector developments.

We would like to thank the OFA staff for their hard work and the members of the Board of Directors for their advice and oversight during the fiscal year. We look forward to working with both staff and the Board in 2010–11.



Peter Wallace
Chair



Gadi Mayman
Chief Executive Officer

# Management's Discussion and Analysis

Capital Markets Activities

Borrowing and Debt Management

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Financial Advice

# Management's Discussion and Analysis

This section details Management's discussion and analysis of the OFA's results in 2009-10 and its objectives for 2010-11.

## Capital Markets Activities

### *Borrowing Program*

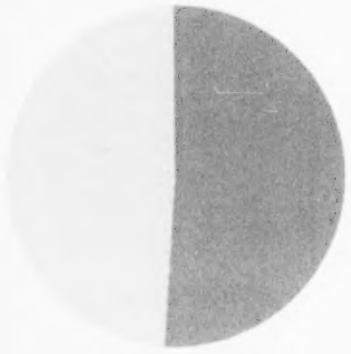
The long-term borrowing program for 2009-10 was $43.8 billion.

Ontario had steady access to the domestic and international bond markets in 2009-10 due to investor confidence in Ontario credit and the liquidity provided by its benchmark bond issues.

In 2009-10, 51 per cent of borrowing ($22.4 billion) was completed in international capital markets. Bonds issued in foreign currencies were Global bonds in U.S. dollars and Euro Medium-Term Notes (EMTNs) in euros, Swiss francs and Hong Kong dollars.

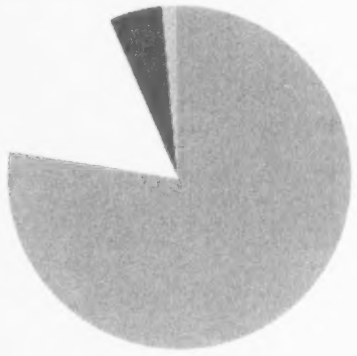
About $21.4 billion or 49 per cent of borrowing was completed in the domestic market through a number of instruments, including syndicated issues, floating rate notes, Ontario Savings Bonds and real return bonds.

**Borrowing – All Markets**




**Total: $43.8 billion**

**Borrowing – Domestic Market**




**Total: $21.4 billion**

***Investments***

The OFA manages the Province's liquid reserve portfolio to optimize investment returns and to ensure sufficient funds are available to meet cash requirements. The average level of daily liquid reserves in 2009–10 was $14.4 billion, net of collateral. In the normal course of business, the Province may pledge or receive collateral for derivatives transactions and repurchase agreements.

The OFA also invests on behalf of certain public bodies to help increase their returns by streamlining investment processes and reducing investment costs. In 2009–10, the OFA provided investment services to a number of agencies, boards, commissions and other public bodies, including IO, the Pension Benefits Guarantee Fund, Ontario Trillium Foundation, Ontario Capital Growth Corporation and the Deposit Insurance Corporation of Ontario. Total funds managed were $3.1 billion.

With Ontario Power Generation Inc. (OPG), the OFA continued to manage the investment activities of the Used Fuel Segregated Fund and the Decommissioning Segregated Fund established under the Ontario Nuclear Funds Agreement (ONFA). As at March 31, 2010, the combined market value of the funds was $10.5 billion compared to $4.9 billion when the funds were formally established in 2003.

There are currently 18 external investment managers retained to invest ONFA funds in bonds, equities and global infrastructure. For the 12 months ended March 31, 2010, the funds' rate of return was 20.5 per cent, in line with the market benchmark of 20.5 per cent. Since inception, the funds have returned 6.4 per cent annualized, outperforming the long-term target annualized rate of return of 3.25 per cent plus the rate of change in the Ontario Consumer Price Index, for a total of 4.93 per cent annualized.

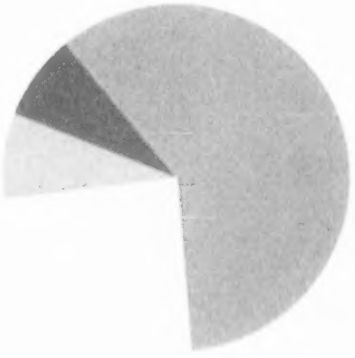
## Borrowing and Debt Management

The OFA manages the total debt of the Province and OEFC. Total debt, which represents all borrowing without offsetting financial assets, was $212.4 billion on a consolidated basis, interim as at March 31, 2010.

Starting in 2009–10, the broader public sector's (BPS) net debt is included in the Province's net debt because of the adoption of a revised presentation of BPS revenues, expenses, assets and liabilities in the Province's consolidated financial reports. BPS organizations include hospitals, school boards and colleges.

### Total Debt Composition

*$212.4 billion*




Ontario's net debt was $193.2 billion interim as at March 31, 2010. This figure includes BPS net debt of $11.6 billion. As at March 31, 2009, net debt was $165.9 billion, including $10.6 billion related to the BPS net debt.

**Prudent risk management policies and practices mitigate the financial risks inherent in managing large debt and liquid reserve portfolios.** A variety of financial instruments, such as swaps and options, are used to manage exposures to fluctuations in interest rates and foreign currency exchange rates. The OFA uses derivatives exclusively for hedging purposes to manage its foreign exchange and interest rate risks. The Province's financial risks are dealt with on a minute-by-minute basis, and these risk exposures are marked-to-market daily and audited annually.

Risk management policies are reviewed annually and amendments are approved by the OFA Board of Directors (the Board).

***Performance***

The OFA monitors and measures the performance of the borrowing, debt management and liquid reserve programs. Total savings relative to the performance benchmarks was $80 million in 2009–10, compared to $201 million in 2008–09.

The borrowing program's performance is measured by the difference between the all-in cost of the actual borrowing program including only fixed-rate debt with terms of greater than two years, and the all-in cost of hypothetical domestic borrowing of the same term and size implemented evenly over the fiscal year (even-pace benchmark). The cost difference is compared to the performance of fixed income fund managers relative to a common bond market index.

For 2009–10, the cost of borrowing for the Province and OEFC was $80.3 million lower than the even-pace borrowing benchmark on a present value basis compared to $194.1 million in 2008–09.

The debt management program's performance is evaluated based on a comparison of program savings with a risk-based performance target. In 2009–10, the debt management program incurred losses of $1.8 million, compared to losses of $1.7 million in 2008–09.

The performance of liquid reserve investments is measured relative to the returns of a custom benchmark with a term of 45 days. The performance difference is compared to the performance of a peer group of money market managers, relative to a common money market index. Money market performance was $2.2 million better than the benchmark for 2009–10. The program returned 1.6 basis points more than the 45 day benchmark.

***Market Risk***

Market risk is the risk of loss due to changes in interest and foreign exchange rates. The OFA aims for a balanced debt maturity profile to mitigate the interest rate risk inherent in refinancing maturing debt and the floating-rate debt.

The Province limits itself to a maximum net interest rate resetting exposure of 35 per cent of debt issued for Provincial purposes and a maximum foreign-exchange exposure of 5 per cent of debt issued for Provincial purposes.

The interim percentage of interest rate resetting exposure (net of liquid reserves) was 11.6 per cent of debt as at March 31, 2010. The interim foreign exchange exposure was 0.1 per cent of debt as at March 31, 2010.

Debt maturities were $14.6 billion, while debt redemptions were $0.4 billion in 2009–10. In 2008–09, debt maturities were approximately $20.3 billion, while debt redemptions were $0.5 billion.

All exposures were well within the Province's approved policy limits during 2009–10.

***Credit Risk***

Credit risk is the risk of loss due to default of bond issuers or counterparties of derivatives or other financial transactions. The lowest acceptable credit rating of counterparties for Ontario is "A minus". However, Ontario typically enters into swap transactions with new counterparties rated "AA minus" or higher.

The Province's interim net credit risk exposure associated with the derivative portfolio as at March 31, 2010 was $411 million, compared to $951 million as at March 31, 2009. Net credit risk exposure represents the loss that the Province would incur if every counterparty to which the Province had credit risk exposure were to default at the same time less the mitigating impact of netting provisions as prescribed in contractual master agreements.

As at March 31, 2010, 91 per cent of Ontario's credit exposure was to counterparties rated "AA minus" or better, compared to 90 per cent as at March 31, 2009.

***Liquidity Risk***

Liquidity risk is the risk liquid reserves will not be sufficient to meet the Province's cash requirements. This risk is controlled through the management of operational cash flows, liquid reserve levels and the short-term borrowing program.

The Province's Treasury Bill and U.S. Commercial Paper programs have authorized limits of $25.5 billion and $5 billion, respectively. As of March 31, 2010, the Province's Treasury Bill and U.S. Commercial Paper programs stood at $13.7 billion and $3.1 billion respectively.

***Operational Risk***

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people, systems or external events. The OFA manages operational risks through divisional procedures and contingency plans as well as appropriate staffing and training, all of which are reviewed on an ongoing basis. The Business Continuity Plan ensures critical operations are completed in a timely manner in the event of a business disruption.

The reliability of information technology and computing systems is crucial to ensure the OFA carries out its mandate efficiently and effectively. Systems were maintained at a high level during 2009–10.

### *Credit Rating Agency Relations*

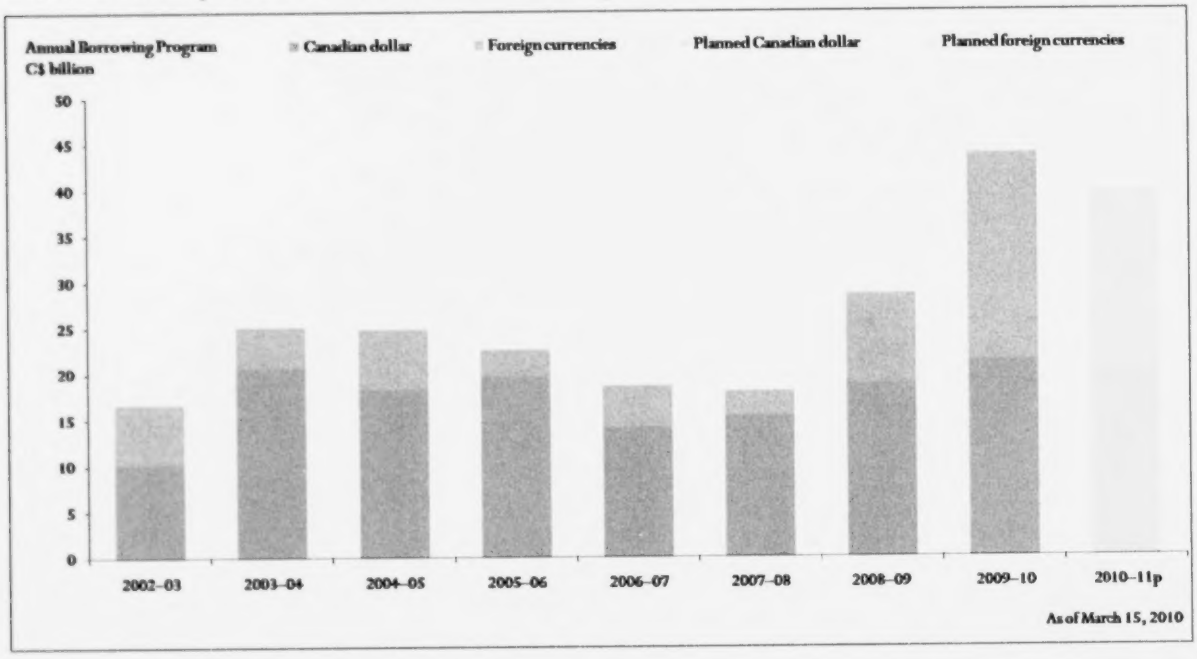
The Province requires ratings from recognized credit rating agencies to issue debt in the capital markets. The OFA ensures credit rating agencies understand government policies and budget direction as well as economic and fiscal performance, and properly reflect these in their reports and decisions. Through the OFA, the Province maintains a one-window contact with the agencies to ensure information provided to them is consistent and coordinated.

Following their review of the 2010 Budget, all three rating agencies confirmed the Province's ratings. Moody's confirmed its "Aa1" rating on April 19, 2010, DBRS confirmed its "AA (low)" on May 20, 2010 and Standard and Poor's (S&P) confirmed its "AA minus" on June 16, 2010.

### *Capital Markets and Borrowing & Debt Management Objectives for 2010–11*

The total long-term borrowing requirement for 2010–11 is forecast at $39.7 billion due to the Province's deficit, debt maturities and capital investments.

Since 2002–03, the proportion of domestic Canadian dollar issuance has remained stable and going forward, the domestic market is expected to be the Province's main funding source.




The OFA will continue to diversify its domestic borrowing program using a combination of syndicated issues, bond auctions, floating-rate notes, medium-term notes and Ontario Savings Bonds.

In addition, it is expected that up to 50 per cent of the program will be borrowed in international markets. Investor relations will remain a priority, with road shows planned for Europe, Asia, Canada and the United States.

Cost-effective and prudent debt management strategies will continue to be key objectives in 2010–11. The OFA will comply with risk management policies and portfolio program limits approved by the Boards of Directors of the OFA and OEFC. Risk management policies will be reviewed and revised as required in response to an evolving regulatory and capital markets environment.

The OFA will also manage the Province's liquid reserves conservatively. With OPG, the OFA will continue to administer ONFA investments consistent with its objectives so the Province's contingent liabilities under ONFA are prudently managed. As well, the OFA will invest on behalf of certain public bodies.

## Financial Reporting

The OFA continued to be actively involved in discussions with the accounting community regarding developments that could have a future impact on the reporting of the Province's debt and interest on debt (IOD).

***Financial Reporting Objectives for 2010–11***

The OFA will continue to work with the Office of the Provincial Controller and the broader accounting community to ensure the Province's need for transparency and accountability are appropriately reflected when any accounting changes are considered by the Public Sector Accounting Board (PSAB).

The OFA will also continue to maintain a leading edge Business Continuity Plan to ensure that timely payments are made to the BPS (including hospitals, municipalities and school boards), to manage the Province's financial risks in real time, and to ensure all of the Province's multibillion dollar financial transactions are settled and processed when due regardless of potential interruptions.

## Cash Management and Banking Services

The OFA provides centralized cash management services that minimize IOD costs. It is also responsible for the provision of banking services to the government, including the efficient management of banking relationships to ensure value for money.

In 2009–10, the OFA provided guidance to the Ministry of Community and Social Services on converting cheque-based support payments to electronic funds transfers, resulting in cost efficiencies of at least $4 million per annum.

The OFA, with the Province's credit card service provider, launched a pilot project for ServiceOntario to enable Ontarians to purchase government goods and services online using a debit card. The OFA also effectively managed the cash flows related to the transfer of the administration of the Province's Corporate Taxes to the Canada Revenue Agency.

***Cash Management & Banking Services Objectives for 2010–11***

The OFA will tender and implement results of tenders for banking, debit/credit card acceptance services and custodial services.

The OFA will also develop and implement technologies that better serve both ministries and various client groups of the Province. Examples include identification and implementation of appropriate electronic payment channels and implementation of mandatory credit card industry security requirements.

## Financial Advice

The OFA was active in providing financial advice and implementation assistance to ministries, Crown agencies and other public bodies on corporate and electricity finance policies and initiatives.

***Transactions***

Ongoing analysis, advice and support were also provided on the successful bid for the 2015 Pan Am Games and delivery of Ontario's share of financial assistance to the automotive manufacturing industry.

The OFA has been involved in providing financial advice to the government on the review of government business enterprises as well as strategic advice on financial and investment policy issues associated with the auto sector.

In Budget 2010, the Province announced that it was reviewing ways to maximize the returns on its major government business enterprises. The OFA has and will continue to assist the Province in this review by providing financial analysis and advice with respect to potential opportunities to maximize the returns on its government business enterprises and other assets.

***Projects***

The OFA's framework for financing public bodies mandates the OFA to provide long-term financing to school boards, colleges, hospitals and Provincial corporations, boards and commissions. Under this framework, the OFA provided loans to a number of public bodies, including Ontario colleges, school boards and Crown corporations totalling $554 million in 2009–10.

The OFA provided business case analysis and advice to ministries, Crown agencies and other public bodies on a wide variety of policies and projects.

The OFA also evaluated forestry sector applications for grants and loan guarantees under the government's forest sector support programs.

The OFA reviewed and provided advice on applications received under the government's Next Generation of Jobs Fund program, as well as on the due diligence process relating to the program.

The OFA continued to provide analysis and advice in respect of a number of IO's projects.

The OFA, on behalf of the Province, announced the launch of a $250 million loan guarantee program in September 2009 to facilitate Aboriginal participation in renewable generation and transmission projects. Each application will be subject to a rigorous due diligence process and will require approval by the Minister of Finance.

The OFA provided services to OEFC, including facilitating loan agreements between OEFC and OPG to refinance existing maturities with OEFC and to finance new electricity supply projects.

The OFA assisted in the continued implementation of ONFA. It reviewed OPG's annual budget for eligible expenditures under ONFA for nuclear waste management and the Pickering Units 2 and 3 safe storage project, and the OFA continued to monitor and provide due diligence on the Provincial Guarantee to the Canadian Nuclear Safety Commission (CNSC). The Province provides a guarantee to the CNSC in partial satisfaction of OPG's financial guarantee requirements to the CNSC on its decommissioning and nuclear waste obligations. As at March 31, 2010, the amount of the current direct Provincial guarantee to the CNSC was $1.5 billion, effective March 1, 2010. The OFA continues to monitor the requirement for a direct Provincial Guarantee, working with OPG and the CNSC as required.

***Financial Advice Objectives for 2010–11***

In 2010–11, the OFA will continue to provide financial advice and assistance to the Minister of Finance, ministries, Crown agencies and other public bodies on financial policies and initiatives.

Activities will include advising ministries and agencies on cost-effective financing policies and structures, comprehensive advice on structuring and implementing financial transactions and accurate determination of value-for-money benchmarks.

Particular attention will be given to public infrastructure financing initiatives, including projects pertaining to public transit and pooled capital procurement for the school renewal funding formula. OFA staff will participate in the review of hospital working capital that was announced in the 2010 Budget. The OFA will also provide advice on measures to support government initiatives and to facilitate cost-effective borrowing by public sector organizations.

Financial analysis and advice will be provided to the Minister of Finance on the electricity sector and the impact of related policy initiatives on the Province's finances (including those of OEFC) and the economy. In addition, ongoing support will be provided for the implementation of ONFA. As required, the OFA will advise on electricity supply initiatives, including facilitating potential financing to OPG for new supply initiatives.

The OFA will provide analysis and advice to the Minister of Finance on applications for the Aboriginal loan guarantee program.

# Summary of Financial Results

**The OFA manages the Province's debt and investment of liquid reserves, and recovers its costs from the Province for** these services. The OFA also provides financial services to Crown agencies and other public bodies, and recovers costs on a fee-for-service basis.

The OFA also administers the assets and liabilities of the former Ontario Municipal Improvement Corporation (OMIC). OMIC made loans of $79 million to various school boards due in 2010–2012, and financed the loans through direct borrowing from the Canada Pension Plan. More details are provided in Note 2 in the OFA's Financial Statements.

The outstanding balance of the loans to public bodies at March 31, 2010 amounts to $4,575 million, an increase of $1,681 million from $2,894 million in March 2009 (Note 6). The increase is largely due to additional loans to: the Government of Canada – Auto Sector of $1,313 million; School Boards of $307 million; Ontario Power Authority of $90 million; Colleges of $45 million; and the Niagara Parks Commission of $6.5 million. This increase is partially offset by net repayments from the Ontario Lottery and Gaming Corporation of $69 million, Royal Ontario Museum of $8 million; Ontario Northland Transportation Commission of $3 million and Corporation of City of Windsor of $1 million.

The OFA continued to provide investment management services to other public bodies in the aggregate amount of $3.1 billion (March 2009 – $2.5 billion) (Financial Statements Note 7).

The OFA recovered operating costs from agencies and related parties amounting to $4.9 million (2009 - $4.9 million) (Note 8). The OFA's net income from operations for the year ended March 31, 2010 was $1,402,000 (2009 – $889,000). The increase is mainly due to the interest rate spread on loans to public bodies advanced after March 2009.

The OFA has been involved in providing financial advice to the government on the review of government business enterprises as well as strategic advice on financial and investment policy issues associated with electricity sector.

# Financial Statements

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## Responsibility for Financial Reporting

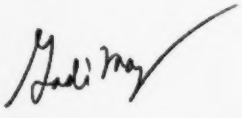
The accompanying Financial Statements of the OFA have been prepared in accordance with the recommendations of the Public Sector Accounting Board (PSAB) of the Canadian Institute of Chartered Accountants and are the responsibility of Management. The preparation of the Financial Statements necessarily involves the use of estimates based on Management's judgment, particularly when transactions affecting the current accounting period cannot be finalized with certainty until future periods. The Financial Statements have been properly prepared within reasonable limits of materiality and in light of information available up to June 4, 2010.

Management maintains a system of internal controls designed to provide reasonable assurance that assets are safeguarded and that reliable financial information is available on a timely basis. The system includes formal policies and procedures and an organizational structure that provides for appropriate delegation of authority and segregation of responsibilities. An internal audit function independently evaluates the effectiveness of these internal controls on an ongoing basis and reports its findings to Management and the Audit & Risk Management Committee of the Board.

The Board, through the Audit & Risk Management Committee, is responsible for ensuring Management fulfils its responsibilities for financial reporting and internal controls. The Audit & Risk Management Committee meets periodically with Management, the internal auditors and the external auditor to deal with issues raised by them and to review the financial statements before recommending approval by the Board.

The Financial Statements have been audited by the Auditor General of Ontario. The Auditor General's responsibility is to express an opinion on whether the Financial Statements are fairly presented in accordance with the recommendations of PSAB of the Canadian Institute of Chartered Accountants. The Auditor's Report, which appears on the following page, outlines the scope of the Auditor's examination and opinion.

On behalf of Management:



Gadi Mayman
Chief Executive Officer

# Auditor's Report

Office of the Auditor General of Ontario
Bureau du vérificateur général de l'Ontario

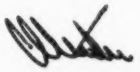
***Auditor's Report***

To the Ontario Financing Authority
and to the Minister of Finance

I have audited the balance sheet of the Ontario Financing Authority as at March 31, 2010, and the statements of net income and retained earnings and cash flow for the year then ended. These financial statements are the responsibility of the Authority's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In my opinion, these financial statements present fairly, in all material respects, the financial position of the Authority as at March 31, 2010 and the results of its operations and its cash flows for the year then ended, in accordance with Canadian generally accepted accounting principles.



Toronto, Ontario
June 4, 2010

Jim McCarter, FCA
Auditor General
Licensed Public Accountant

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# Ontario Financing Authority
## Balance Sheet
**As at March 31, 2010**

| *(in thousands of dollars)* | 2010 | 2009 |
|---|---|---|
| **ASSETS** | | |
| **Current assets** | | |
| Cash | $ 2,156 | $ 965 |
| Interest receivable – OMIC (Note 2) | 2,029 | 2,029 |
| Due from agencies and related parties (Note 8) | 1,674 | 1,491 |
| Due from the Province | 1,763 | 1,589 |
| Current portion of loans receivable | 5,156 | – |
| **Total current assets** | **12,778** | **6,074** |
| **Fixed assets** (Note 3) | 3,053 | 2,790 |
| **Loans receivable** (Note 2) | 73,865 | 79,021 |
| **Total assets** | $ **89,696** | $ **87,885** |
| **LIABILITIES AND RETAINED EARNINGS** | | |
| **Current liabilities** | | |
| Accounts payable | $ 1,722 | $ 1,530 |
| Interest payable – OMIC (Note 2) | 2,029 | 2,029 |
| Due to the Province-Recoveries | 1,254 | 1,282 |
| Current portion of long term debt | 5,156 | – |
| **Total current liabilities** | **10,161** | **4,841** |
| **Long term debt** (Note 2) | 73,865 | 79,021 |
| **Deferred revenue** (Note 4) | 3,094 | 2,849 |
| **Retained earnings** | 2,576 | 1,174 |
| **Total liabilities and retained earnings** | $ **89,696** | $ **87,885** |

*See accompanying notes to financial statements.*

Approved on behalf of the Board:

Peter Wallace
Chair

Gadi Mayman
Chief Executive Officer

# Auditor's Report

Office of the Auditor General of Ontario
Bureau du vérificateur général de l'Ontario

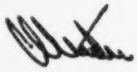
***Auditor's Report***

To the Ontario Financing Authority
and to the Minister of Finance

I have audited the balance sheet of the Ontario Financing Authority as at March 31, 2010, and the statements of net income and retained earnings and cash flow for the year then ended. These financial statements are the responsibility of the Authority's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In my opinion, these financial statements present fairly, in all material respects, the financial position of the Authority as at March 31, 2010 and the results of its operations and its cash flows for the year then ended, in accordance with Canadian generally accepted accounting principles.



Toronto, Ontario
June 4, 2010

Jim McCarter, FCA
Auditor General
Licensed Public Accountant

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# Ontario Financing Authority
## Balance Sheet
**As at March 31, 2010**

| *(in thousands of dollars)* | 2010 | 2009 |
|---|---|---|
| **ASSETS** | | |
| **Current assets** | | |
| Cash | $ 2,156 | $ 965 |
| Interest receivable — OMIC (Note 2) | 2,029 | 2,029 |
| Due from agencies and related parties (Note 8) | 1,674 | 1,491 |
| Due from the Province | 1,763 | 1,589 |
| Current portion of loans receivable | 5,156 | |
| **Total current assets** | **12,778** | **6,074** |
| **Fixed assets** (Note 3) | 3,053 | 2,790 |
| **Loans receivable** (Note 2) | 73,865 | 79,021 |
| **Total assets** | $ **89,696** | $ **87,885** |
| **LIABILITIES AND RETAINED EARNINGS** | | |
| **Current liabilities** | | |
| Accounts payable | $ 1,722 | $ 1,530 |
| Interest payable — OMIC (Note 2) | 2,029 | 2,029 |
| Due to the Province-Recoveries | 1,254 | 1,282 |
| Current portion of long term debt | 5,156 | |
| **Total current liabilities** | **10,161** | **4,841** |
| **Long term debt** (Note 2) | 73,865 | 79,021 |
| **Deferred revenue** (Note 4) | 3,094 | 2,849 |
| **Retained earnings** | 2,576 | 1,174 |
| **Total liabilities and retained earnings** | $ **89,696** | $ **87,885** |

*See accompanying notes to financial statements.*

Approved on behalf of the Board:

Peter Wallace
Chair

Gadi Mayman
Chief Executive Officer

# Ontario Financing Authority
## Statement of Net Income and Retained Earnings
**For the year ended March 31, 2010**

| *(in thousands of dollars)* | 2010 | 2009 |
|---|---|---|
| **REVENUE** | | |
| Cost recovery from the Province (Note 5) | $ 19,714 | $ 18,105 |
| Interest revenue (Note 2) | 8,996 | 8,482 |
| **Total revenue** | **28,710** | **26,587** |
| **EXPENSES** | | |
| Salaries, wages and benefits | 18,160 | 16,662 |
| Interest on long term debt (Note 2) | 7,593 | 7,594 |
| Administrative and general | 5,416 | 5,540 |
| Amortization of fixed assets (Note 4) | 1,016 | 820 |
| **SubTotal** | **32,185** | **30,616** |
| Less: cost recovery from agencies & related parties (Note 8) | (4,877) | (4,918) |
| **Total expenses** | **27,308** | **25,698** |
| Net income | 1,402 | 889 |
| Retained earnings, beginning of period | 1,174 | 285 |
| Retained earnings, end of period | $ **2,576** | $ **1,174** |

*See accompanying notes to financial statements.*

# Ontario Financing Authority

## Cash Flow Statement

**For the year ended March 31, 2010**

| *(in thousands of dollars)* | 2010 | 2009 |
|---|---|---|
| **Cash flows from operating activities** | | |
| Net income | $ 1,402 | $ 889 |
| Adjustment for amortization of fixed assets | 1,016 | 820 |
| Decrease in net interest receivable/payable | – | 19 |
| (Increase) in due from agencies & related parties | (183) | (447) |
| Decrease in due from the Province (net of accounts payable) | 18 | 18 |
| Increase/(decrease) in recoveries due to the Province | (28) | 273 |
| Increase in deferred revenue | 245 | 1,463 |
| Cash flows from operating activities | 2,470 | 3,045 |
| **Cash flows from investing activities** | | |
| Purchase of capital assets | (1,279) | (2,301) |
| Cash flows used in investing activities | (1,279) | (2,301) |
| Increase in cash | 1,191 | 744 |
| Cash, beginning of year | 965 | 221 |
| **Cash, end of year** | $ **2,156** | $ **965** |

*See accompanying notes to financial statements.*

# Ontario Financing Authority
## Notes to Financial Statements
**For the year ended March 31, 2010**

### BACKGROUND

The Ontario Financing Authority (the "OFA") was established as an agency of the Crown on November 15, 1993 by the *Capital Investment Plan Act, 1993* (the "Act"). In accordance with the Act, the OFA:

- conducts borrowing, investment and financial risk management for the Province of Ontario (the "Province");
- manages the Provincial debt;
- provides financial and centralized cash management services for the Province;
- advises ministries, Crown agencies and other public bodies on financial policies and projects;
- assists Crown agencies and other public bodies to borrow and invest money;
- acts at the direction of the Province in lending to certain public bodies;
- invests on behalf of some public bodies.

In addition, the OFA's objects include:
- providing such other financial services as are considered advantageous to the Province or any public body; and
- any additional objects as directed by the Lieutenant Governor in Council.

The OFA is a corporation established under the laws of Ontario. The OFA is exempt from federal and provincial income taxes under paragraph 149(1)(d) of the *Income Tax Act* (Canada).

### 1. SIGNIFICANT ACCOUNTING POLICIES

**Basis of Accounting:** Because the OFA is a government organization, these financial statements are prepared in accordance with the recommendations of the Public Sector Accounting Board (PSAB) of the Canadian Institute of Chartered Accountants.

**Cash:** Cash includes cash on deposit and highly liquid investments with maturities of less than nine months. They are recorded at cost, which approximates current market value.

**Fixed assets:** Fixed assets are stated at cost. Amortization is provided using the straight-line method over the estimated useful life of the asset, as listed below.

| | |
|---|---|
| Furniture and equipment | 5 years |
| Computer hardware | 3 years |
| Leasehold improvements | Term of lease plus one renewal period |

Funding received from the Province and the agencies for the acquisition of fixed assets is recorded as deferred revenue and amortized to cost recovery on the same basis as the fixed assets.

**Measurement uncertainty:** The preparation of these financial statements requires management to make estimates that are based on the best information available at the time of preparation of the financial statements and will be updated annually to reflect new information as it becomes available.

## 2. LONG-TERM DEBT AND RELATED INTEREST

In accordance with the Act, the Ontario Municipal Improvement Corporation (OMIC) assets and liabilities were transferred to the OFA on November 15, 1993. OMIC received loans from the Canada Pension Plan (CPP) which were used to make loans to municipalities and school boards under similar terms as its debt.

The maturities and average interest rates on both the outstanding loans receivable and outstanding debt are set out below:

*(in thousands of dollars)*

| Maturing in: | Principal Maturing | Average Interest Rate (%) |
|---|---|---|
| **2010** | $ 5,156 | 10.86 |
| **2011** | 29,630 | 9.97 |
| **2012** | 44,235 | 9.22 |
| **Total** | $ **79,021** | **9.61** |
| **Less current portion** | **5,156** | |
| | **$ 73,865** | |

Interest payable to CPP of $2,029 is equal to the interest receivable from the municipalities and school boards.

The $8,996 of interest revenue equals the $7,593 interest expense on the CPP borrowings, plus $1,397 interest rate spread charged on loans to related parties as explained in Note 6 plus interest earned on the balance of cash.

## 3. FIXED ASSETS

The net book value (NBV) of fixed assets is as follows:

*(in thousands of dollars)*

| | Cost | Accumulated Amortization | NBV March 31, 2010 | NBV March 31, 2009 |
|---|---|---|---|---|
| **Furniture and equipment** | $ 1,030 | $ 398 | $ 632 | $ 729 |
| **Computer hardware** | 10,883 | 9,519 | 1,364 | 932 |
| **Leasehold improvements** | 1,686 | 629 | 1,057 | 1,129 |
| **Total** | $ **13,599** | $ **10,546** | $ **3,053** | $ **2,790** |

# Ontario Financing Authority
## Notes to Financial Statements
**For the year ended March 31, 2010**

### BACKGROUND

The Ontario Financing Authority (the "OFA") was established as an agency of the Crown on November 15, 1993 by the *Capital Investment Plan Act, 1993* (the "Act"). In accordance with the Act, the OFA:

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**Fixed assets:** Fixed assets are stated at cost. Amortization is provided using the straight-line method over the estimated useful life of the asset, as listed below.

| | |
|---|---|
| Furniture and equipment | 5 years |
| Computer hardware | 3 years |
| Leasehold improvements | Term of lease plus one renewal period |

Funding received from the Province and the agencies for the acquisition of fixed assets is recorded as deferred revenue and amortized to cost recovery on the same basis as the fixed assets.

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The maturities and average interest rates on both the outstanding loans receivable and outstanding debt are set out below:

*(in thousands of dollars)*

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| 2012 | 44,235 | 9.22 |
| **Total** | **$ 79,021** | **9.61** |
| **Less current portion** | **5,156** | |
| | **$ 73,865** | |

Interest payable to CPP of $2,029 is equal to the interest receivable from the municipalities and school boards.

The $8,996 of interest revenue equals the $7,593 interest expense on the CPP borrowings, plus $1,397 interest rate spread charged on loans to related parties as explained in Note 6 plus interest earned on the balance of cash.

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*(in thousands of dollars)*

| | Cost | Accumulated Amortization | NBV March 31, 2010 | NBV March 31, 2009 |
|---|---|---|---|---|
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| **Computer hardware** | 10,883 | 9,519 | 1,364 | 932 |
| **Leasehold improvements** | 1,686 | 629 | 1,057 | 1,129 |
| **Total** | **$ 13,599** | **$ 10,546** | **$ 3,053** | **$ 2,790** |

## 4. DEFERRED REVENUE

Deferred revenue represents the unamortized portion of the cost recovered from the Province and the agencies for the acquisition of fixed assets and the amount of lease inducement to be amortized to operations over three years.

*(in thousands of dollars)*

| | Fixed Assets | Lease Inducement | Total |
|---|---|---|---|
| **Balance, beginning of year** | $ 2,790 | $ 59 | $ 2,849 |
| **Additions** | 1,279 | – | 1,279 |
| **Amortization** | (1,016) | (18) | (1,034) |
| **Balance, end of year** | $ **3,053** | $ **41** | $ **3,094** |

The $1.0 million amortization of deferred fixed assets revenue is included in the cost recovery from the Province on the Statement of Net Income and Retained Earnings, while the $18,000 amortization of deferred lease inducement is netted against administrative and general expense.

## 5. DEBT MANAGEMENT FOR THE PROVINCE

The OFA manages debt and investment on behalf of the Province, including the joint management of funds owned by Ontario Power Generation Inc. (OPG) under the *Ontario Nuclear Funds Agreement*. The Province, OPG and certain OPG subsidiaries entered into the agreement in March 2002 to set aside funds necessary to dispose of nuclear waste and used fuel and to decommission nuclear power stations. The agreement came into force on July 24, 2003.

Cost recovery from the Province for all debt management and investment activities for the year ended March 31, 2010 was $19.7 million (2009 – $18.1 million). The increase of $1.6 million is due to greater demands on the OFA resulting in increased staffing and support costs (legal fees and IT support) in the Capital Markets Division for higher borrowing requirements and loans to public bodies, and increased staffing and accommodation costs for the Corporate and Electricity Finance Division, including the costs of advisory services related to asset management activities.

## 6. TRANSACTIONS WITH PUBLIC BODIES

The OFA provides financing to various public bodies on direction from the Province. As the OFA is directed by the Province to make these loans in furtherance of stated Provincial initiatives, and these loans are included in the Province's consolidated financial statements, these transactions are not reflected in these financial statements. Funds for these loans are advanced to the OFA by the Province under credit facilities aggregating $14.5 billion expiring from 2027 to 2037. Principal repayments received from public bodies by the OFA are forwarded to the Province. The interest rates charged to public bodies will be slightly higher than the rate charged on the advances from the Province to fund the loans ("the spread"). The OFA will generally retain the spread in order to recover the administrative costs of managing these loans. In some cases the rate charged to the borrower will be similar to the rate that would be charged on the loan by a commercial lender which would reflect the relative risk associated with the loan.

Funds are generally advanced by the OFA to public bodies under interim financing arrangements consisting of a number of promissory notes for terms not exceeding one year. The promissory notes are later converted to term debt and repayment terms are finalized. As of March 31, 2010, the principal amounts receivable by the OFA on behalf of the Province represent debentures, short term loans and lines of credit. In addition to the outstanding loans below, interest accrued on these loans amounted to $53.4 million (March 2009 – $38.8 million).

These are related party transactions, with the exception of those with the Corporation of the City of Windsor and the Government of Canada-Auto Sector.

*(in thousands of dollars)*

| | March 31, 2010 | March 31, 2009 |
|---|---|---|
| Centennial Centre of Science and Technology | 3,500 | 4,000 |
| Colleges of Applied Art and Technologies | 70,677 | 24,827 |
| Corporation of the City of Windsor | 18,386 | 19,516 |
| Government of Canada - Auto Sector | 1,396,252 | 83,333 |
| Niagara Parks Commission | 6,500 | — |
| Ontario Infrastructure Projects Corporation | 100,000 | 100,000 |
| Ontario Lottery and Gaming Corporation | 187,840 | 256,372 |
| Ontario Northland Transportation Commission | 30,646 | 33,821 |
| Ontario Power Authority | 90,000 | — |
| Royal Ontario Museum | 48,840 | 56,840 |
| School Boards | 2,622,292 | 2,315,104 |
| **Total** | $ **4,574,933** | $ **2,893,813** |

**Loans to Public Bodies:**

The Centennial Centre of Science and Technology is a Crown agency of the Province under the *Centennial Centre of Science and Technology Act, 1990*. The loan was made to fund the construction of the Agents of Change project and bears interest at 4.346 per cent and matures in March 2017.

Colleges of Applied Arts and Technology have been loaned $71 million (2009 – $25 million) for various campus projects including new and expanded student residences, computer equipment, parking facilities, and an energy saving capital project. These loans bear interest ranging from 0.6 to 6.37 per cent and mature from 2011 to 2040.

The Corporation of the City of Windsor is a municipality within the meaning of *the* Municipal Act. The financing provided is for the acquisition, design and construction of the Windsor Justice Facility, consisting of a provincial division courthouse and city police headquarters. This is a 20 year loan bearing interest at 6.41 per cent and maturing in March 2021. The outstanding balance is $18.4 million (March 2009 – $19.5 million).

## 4. DEFERRED REVENUE

Deferred revenue represents the unamortized portion of the cost recovered from the Province and the agencies for the acquisition of fixed assets and the amount of lease inducement to be amortized to operations over three years.

*(in thousands of dollars)*

| | Fixed Assets | Lease Inducement | Total |
|---|---|---|---|
| **Balance, beginning of year** | $ 2,790 | $ 59 | $ 2,849 |
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The OFA provides financing to various public bodies on direction from the Province. As the OFA is directed by the Province to make these loans in furtherance of stated Provincial initiatives, and these loans are included in the Province's consolidated financial statements, these transactions are not reflected in these financial statements. Funds for these loans are advanced to the OFA by the Province under credit facilities aggregating $14.5 billion expiring from 2027 to 2037. Principal repayments received from public bodies by the OFA are forwarded to the Province. The interest rates charged to public bodies will be slightly higher than the rate charged on the advances from the Province to fund the loans ("the spread"). The OFA will generally retain the spread in order to recover the administrative costs of managing these loans. In some cases the rate charged to the borrower will be similar to the rate that would be charged on the loan by a commercial lender which would reflect the relative risk associated with the loan.

Funds are generally advanced by the OFA to public bodies under interim financing arrangements consisting of a number of promissory notes for terms not exceeding one year. The promissory notes are later converted to term debt and repayment terms are finalized. As of March 31, 2010, the principal amounts receivable by the OFA on behalf of the Province represent debentures, short term loans and lines of credit. In addition to the outstanding loans below, interest accrued on these loans amounted to $53.4 million (March 2009 – $38.8 million).

These are related party transactions, with the exception of those with the Corporation of the City of Windsor and the Government of Canada-Auto Sector.

*(in thousands of dollars)*

| | March 31, 2010 | March 31, 2009 |
|---|---|---|
| Centennial Centre of Science and Technology | 3,500 | 4,000 |
| Colleges of Applied Art and Technologies | 70,677 | 24,827 |
| Corporation of the City of Windsor | 18,386 | 19,516 |
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| Niagara Parks Commission | 6,500 | |
| Ontario Infrastructure Projects Corporation | 100,000 | 100,000 |
| Ontario Lottery and Gaming Corporation | 187,840 | 256,372 |
| Ontario Northland Transportation Commission | 30,646 | 33,821 |
| Ontario Power Authority | 90,000 | |
| Royal Ontario Museum | 48,840 | 56,840 |
| School Boards | 2,622,292 | 2,315,104 |
| **Total** | **$ 4,574,933** | **$ 2,893,813** |

**Loans to Public Bodies:**

The Centennial Centre of Science and Technology is a Crown agency of the Province under the *Centennial Centre of Science and Technology Act, 1990*. The loan was made to fund the construction of the Agents of Change project and bears interest at 4.346 per cent and matures in March 2017.

Colleges of Applied Arts and Technology have been loaned $71 million (2009 – $25 million) for various campus projects including new and expanded student residences, computer equipment, parking facilities, and an energy saving capital project. These loans bear interest ranging from 0.6 to 6.37 per cent and mature from 2011 to 2040.

The Corporation of the City of Windsor is a municipality within the meaning of *the* Municipal Act. The financing provided is for the acquisition, design and construction of the Windsor Justice Facility, consisting of a provincial division courthouse and city police headquarters. This is a 20 year loan bearing interest at 6.41 per cent and maturing in March 2021. The outstanding balance is $18.4 million (March 2009 – $19.5 million).

**The Government of Canada borrowed a total of $4,577 million (March 2009 – $83 million) to assist in providing** funding to the Canadian auto sector. In July, loans of $3,047 million were exchanged for equity and on December 18, 2009 and March 31, 2010, loans of $134 million were repaid, leaving $1,396 million in loans outstanding bearing floating interest rates ranging from 5 to 7 percent. Interest of $61 million on outstanding loans was received as of March 31, 2010. Of the outstanding loans, $535 million is scheduled to mature on June 12, 2017, $365 million is scheduled to mature on July 10, 2015 and $69 million is scheduled to mature on July 10, 2010. Loans of $427 million which matured on June 29, 2009 remain outstanding. Further information will be received from the Government of Canada regarding the matured loans. Subsequent to the year-end, on April 20, 2010, additional loans of $365 million were repaid.

The Niagara Parks Commission, a Crown agency of the Province, operating under *Niagara Parks Act 1990*, borrowed $6.5 million (March 2009 – Nil) to finance additional capital costs incurred for the redevelopment of phase I of Table Rock House in Queen Victoria Park, Niagara Falls. This is a seventeen year amortization loan, bears interest at 5.07 per cent and matures in November 2026.

The IO has been provided a 10-year Revolving Credit Facility to a maximum amount of $200 million. IO has drawn $100 million (March 2009 – $100 million) bearing interest at rates ranging from 2.12 to 4.63 per cent.

The Ontario Lottery and Gaming Corporation (OLG) is a Crown agency of the Province under the *Ontario Lottery and Gaming Corporation Act, 1999*, and has been provided a loan totaling $188 million (2009-$256 million) to fund several projects and bears interest at 2.4 per cent and matures in February 2015.

The Ontario Northland Transportation Commission (ONTC) is a Crown agency of the Province under the *Ontario Northland Transportation Commission Act, 1990*. The ONTC total borrowing is comprised of amortization loans and an operating line of credit aggregating to $31 million (March 2009 – $34 million). Loans of $18 million mature from 2010 to 2031 and bear interest rates ranging from 4.717 to 6.37 per cent. The operating line of credit of $13 million bears floating interest rate ranging from 0.24 to 0.56 per cent.

The Ontario Power Authority was provided a maximum $975 million credit facility to fund the Regulated Price Plan variance account. The credit facility expires on December 31, 2010. It had drawn $90 million against this credit facility at interest rates ranging from 0.42 per cent to 0.50 per cent by March 31, 2010.

The Royal Ontario Museum (ROM) has borrowed $49 million (March 2009 – $57 million) comprised of $40 million at fixed rates ranging from 5.04 to 5.12 per cent and $9 million at a floating rate currently at 0.59 per cent. All outstanding loans are scheduled to be repaid by March 2016.

School boards have been provided loans under various programs beginning in 2006. During the year ended March 31, 2010, school boards were provided with additional loans and made two semi-annual blended payments of principal and interest, leaving the total outstanding amount at $2,622 million (March 2009 – $ 2,315 million). These loans bear interest ranging from 3.59 to 5.384 per cent and mature from 2031 to 2034.

**Committed Credit Facilities:**

At the direction of the Province, the OFA has committed to finance a number of public bodies for which funds have not yet been advanced. The details are as follows:

The Canadore College of Applied Arts and Technology, a Crown agency established under the *Ontario Colleges of Applied Arts and Technology Act, 2002*, was provided a non-revolving loan credit facility expiring on March 31, 2011 to finance the renovation of a Student Centre to a maximum of $9 million during the construction period. The repayment date is to be no later than March 31, 2011.

The Deposit Insurance Corporation of Ontario (DICO) was provided a maximum $250 million revolving credit facility expiring on October 31, 2013 to ensure DICO's capacity to address systemic difficulties in the credit union system or the failure of large institutions that require resources above those in the Deposit Insurance Reserve Fund which is currently valued at approximately $97 million. All principal and interest is required to be repaid by December 31, 2024.

## 7. INVESTMENT AND DEBT MANAGEMENT FOR AGENCIES AND RELATED PARTIES

The OFA provides services to agencies, related parties and other public bodies including investment management services as listed below on a cost recovery basis amounting to $183,000 for the year ended March 31, 2010 (March 2009 – $153,000). Funds managed on behalf of these other public bodies were $3.1 billion at March 31, 2010 (March 2009 – $2.5 billion).

Algonquin Forestry Authority
Deposit Insurance Corporation of Ontario
Infrastructure Ontario
Northern Ontario Heritage Fund Corporation
Ontario Capital Growth Corporation
Ontario Immigrant Investor Corporation
Ontario Realty Corporation
Ontario Securities Commission
Ontario Trillium Foundation
Pension Benefits Guarantee Fund

## 8. DEBT MANAGEMENT FOR AGENCIES AND RELATED PARTIES

The OFA provides debt management services on a cost recovery basis to agencies and related parties as set out below:

### Agencies:

#### Ontario Electricity Financial Corporation (OEFC)

OEFC is responsible for servicing and retiring the debt and certain other liabilities of the former Ontario Hydro. The OFA provides financial services and advice to OEFC and manages its debt portfolio of approximately $27.4 billion.

#### Infrastructure Ontario (IO)

The OFA provides financial services and advice to IO and manages its debt of $2 billion including loans from the Province, a provincial agency and third parties.

Total costs recovered and amounts outstanding at March 31, 2010 from OEFC, IO and other related parties are set out in the table below:

*(in thousands of dollars)*

| | March 31, 2010 | March 31, 2009 |
|---|---|---|
| **Costs Recovered:** | | |
| Agencies: | | |
| OEFC | $ 3,621 | $ 3,520 |
| IO | 1,073 | 1,245 |
| Other (Note 7) | 183 | 153 |
| **Total** | $ 4,877 | $ 4,918 |
| **Receivables:** | | |
| Agencies: | | |
| OEFC | $ 905 | $ 879 |
| IO | 268 | 311 |
| Other (Note 7) | 81 | 32 |
| Related parties – Interest (Notes 2 and 6) | 420 | 269 |
| **Total** | $ 1,674 | $ 1,491 |

## 9. FUTURE EMPLOYEE BENEFITS

The OFA provides pension benefits to its full-time employees through participation in the Public Service Pension Plan, which is a multi-employer defined benefit pension plan established by the Province. The Ministry of Government Services (MGS) is responsible for funding the employer's contribution to the Pension Fund and accordingly, the OFA has no additional liability for these future costs. In addition, the cost of post-retirement, non-pension benefits is paid by MGS and is not reported in these financial statements.

## 10. CONTINGENCIES AND COMMITMENTS

At March 31, 2010, there were no claims under which the OFA would be financially liable. The Province continues to guarantee the term deposits issued by the Province Savings Office prior to 2003.

## 11. COMPARATIVE FIGURES

Certain of the prior year's comparative figures have been reclassified to conform to the financial statement presentation adopted for the 2009–10 fiscal year.

## 8. DEBT MANAGEMENT FOR AGENCIES AND RELATED PARTIES

The OFA provides debt management services on a cost recovery basis to agencies and related parties as set out below:

### Agencies:

#### Ontario Electricity Financial Corporation (OEFC)

OEFC is responsible for servicing and retiring the debt and certain other liabilities of the former Ontario Hydro. The OFA provides financial services and advice to OEFC and manages its debt portfolio of approximately $27.4 billion.

#### Infrastructure Ontario (IO)

The OFA provides financial services and advice to IO and manages its debt of $2 billion including loans from the Province, a provincial agency and third parties.

Total costs recovered and amounts outstanding at March 31, 2010 from OEFC, IO and other related parties are set out in the table below:

*(in thousands of dollars)*

| | March 31, 2010 | March 31, 2009 |
|---|---|---|
| **Costs Recovered:** | | |
| Agencies: | | |
| OEFC | $ 3,621 | $ 3,520 |
| IO | 1,073 | 1,245 |
| Other (Note 7) | 183 | 153 |
| **Total** | $ 4,877 | $ 4,918 |
| **Receivables:** | | |
| Agencies: | | |
| OEFC | $ 905 | $ 879 |
| IO | 268 | 311 |
| Other (Note 7) | 81 | 32 |
| Related parties – Interest (Notes 2 and 6) | 420 | 269 |
| **Total** | $ 1,674 | $ 1,491 |

## 9. FUTURE EMPLOYEE BENEFITS

The OFA provides pension benefits to its full-time employees through participation in the Public Service Pension Plan, which is a multi-employer defined benefit pension plan established by the Province. The Ministry of Government Services (MGS) is responsible for funding the employer's contribution to the Pension Fund and accordingly, the OFA has no additional liability for these future costs. In addition, the cost of post-retirement, non-pension benefits is paid by MGS and is not reported in these financial statements.

## 10. CONTINGENCIES AND COMMITMENTS

At March 31, 2010, there were no claims under which the OFA would be financially liable. The Province continues to guarantee the term deposits issued by the Province Savings Office prior to 2003.

## 11. COMPARATIVE FIGURES

Certain of the prior year's comparative figures have been reclassified to conform to the financial statement presentation adopted for the 2009–10 fiscal year.

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# Corporate Governance

Corporate Governance

Financial Reporting Requirements

Board of Directors

## Corporate Governance

The OFA is an agent of the Crown and is classified as an operational enterprise agency.

Corporate governance involves processes that permit the effective supervision and management of the OFA's activities by senior management, the Board and the Minister of Finance. It includes identifying individuals and groups responsible for activities and specifying their roles. The OFA's governance framework is fully described in its corporate governance policy.

***Accountability and Responsibilities***

The OFA's accountability structure flows from its governing statute, CIPA. The Minister of Finance is the minister responsible for the administration of CIPA with respect to the OFA. CIPA, together with directives issued by Management Board of Cabinet (MBC) relating to Crown agencies, form a framework under which the OFA is governed.

Each year, the Minister is required to submit the Annual Report to the Lieutenant Governor in Council and then table the report in the Legislature. In addition, the Minister reviews and approves the annual business plan and recommends the plan for approval to MBC every three years or as otherwise required by government directives. The Minister also maintains communications with the OFA through the Chair of the Board regarding government policies and expectations relevant to the OFA.

The Chair is accountable to the Minister of Finance for the performance of the OFA in fulfilling its mandate. CIPA requires the Deputy Minister of Finance be the Chair of the OFA. The Chair is responsible for providing advice and information to the Minister with regard to the operation and affairs of the OFA. In addition, the Chair provides leadership and direction to the Board and the Chief Executive Officer (CEO), and ensures the OFA complies with governmental policies and directives.

The Board is appointed by the Lieutenant Governor in Council and reports to the Minister through the Chair. The OFA Board performs a supervisory role. It oversees the management of the OFA and helps to ensure the OFA's mandate, as determined by the Province, is implemented effectively. The Board meets at least quarterly and receives regular reports from the CEO and OFA staff concerning the operations of the OFA and its compliance with applicable laws and policies. Standards of conduct for Board members are set out in a Board approved Code of Conduct.

There are also two committees of the Board to assist it in supervising the management of the OFA. The Audit & Risk Management Committee approves an annual internal audit plan and liaises with the OFA's internal auditors and the Auditor General of Ontario regarding financial reporting and controls. It also reviews financial policies and financial statements and recommends them to the Board. Another function of the Audit & Risk Management Committee is the review of the OFA's major risks and mitigation strategies. The Human Resources Committee was created in 2006-07 to assist the Board in ensuring appropriate measures are in place to recruit, develop and retain qualified staff in critical areas.

The CEO is appointed by the Lieutenant Governor in Council on the recommendation of the Minister. The CEO is accountable to the Chair for the day-to-day management of the OFA and for the performance of any other functions assigned by the Board. The CEO is responsible for managing the ongoing activities of the OFA, including the supervision of staff. In addition, the CEO ensures that the OFA's policies and procedures remain relevant and effective.

The OFA's employees are appointed pursuant to the *Public Service of Ontario Act, 2006*.

## Financial Reporting Requirements

The OFA prepares annual financial statements in accordance with the recommendations of the PSAB of the Canadian Institute of Chartered Accountants. They are reviewed and recommended by the Audit & Risk Management Committee and approved by the Board. Unaudited financial statements are prepared quarterly and presented to the Audit & Risk Management Committee and the Board. The annual financial statements are audited by the Auditor General who expresses an opinion on whether they present the financial results fairly and in accordance with Canadian generally accepted accounting principles. The findings are reviewed by the Audit & Risk Management Committee and the Board. These audited financial statements are tabled in the Ontario Legislature as part of the Annual Report and are included as a schedule to the Public Accounts of the Province.

### *Internal Controls*

Management is responsible for establishing and maintaining internal controls to provide reasonable assurance regarding the reliability of financial reporting, to safeguard the OFA's assets and to control its liabilities.

In meeting its responsibility for the reliability and timeliness of financial information, the OFA uses a comprehensive system of internal controls, including organizational and procedural controls. The system of internal controls includes:

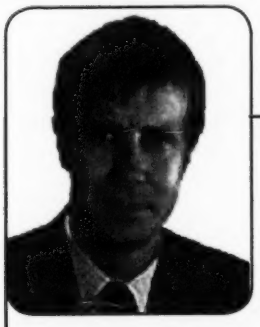
- comprehensive business planning;
- written communication of policies and procedures governing corporate conduct and risk management;
- segregation of duties;
- maintenance and retention of detailed records;
- responsible delegation of authority and personal accountability;
- careful selection and training of personnel; and
- regularly updated accounting policies.

As part of its annual business plan, the OFA conducts an assessment of corporate-wide risks and develops appropriate mitigation strategies.

The Ontario Internal Audit Division of the Ministry of Finance develops an annual internal audit plan based on its risk assessment and input from the OFA Audit & Risk Management Committee and Management. The internal audit plan is approved by the OFA Audit & Risk Management Committee. The Internal Audit Division reports to the OFA Audit & Risk Management Committee on the results of its audit work in the OFA. In 2009–10, the Internal Audit Division completed 500 audit days at the OFA, and 298 days at OEFC for functions executed by OFA staff on behalf of OEFC.

## Board of Directors

The following individuals were members of the Board in 2009–10:

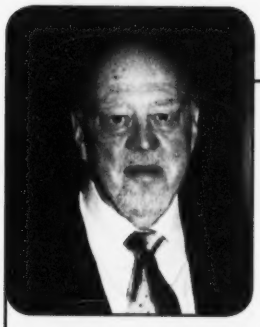


**Peter Wallace**
Chair, OFA Board
Deputy Minister of Finance and Secretary of Treasury Board

Peter Wallace was appointed Deputy Minister of Finance and Secretary to Treasury Board effective September 15, 2008. Before that, Peter was Deputy Minister of Energy, starting in January, 2007. Earlier, as Deputy Minister and Associate Secretary of the Cabinet, Policy, he played a key role in implementing government policy and legislation.

From February 2001 to February 2004, Peter served as Assistant Deputy Minister of Natural Resource Management with the Ministry of Natural Resources. Prior positions include Assistant Deputy Minister, Policy and Strategic Planning, Cabinet Office; Assistant Deputy Minister, Program Management and Estimates Division, Management Board Secretariat; and Director, Expenditure Management and Reporting, Ministry of Finance.

Peter began his public service career in 1981 after completing a BA (Honours) in Political Economy and a Master of Public Administration from the University of Toronto.



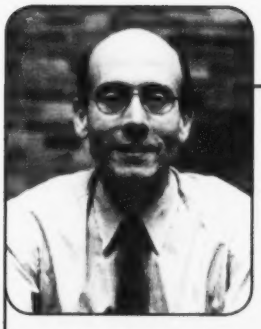
**Robert Brown, FCA**
Vice-Chair, OFA Board

Robert is a past Chair and CEO of Price Waterhouse (now PricewaterhouseCoopers).

He has served as Chair of the Canadian Tax Foundation and the Canadian Institute of Chartered Accountants. Robert has an extensive background in tax, fiscal and governance issues. He was a member of the Toronto Stock Exchange Committee on Corporate Governance. Robert also served a term as the Clifford Clark Visiting Economist to the Department of Finance, providing advice to the Department and the Minister on fiscal, tax and economic policy issues. More recently, Robert served as Co-Chair of a federal committee to review tax assistance for the disabled. He has served as a director of other public Canadian companies.

Robert served in a number of volunteer positions and is a Past Chair of the C.D. Howe Institute and a frequent speaker and writer on economic and tax policy issues. He is a Past Director of the Institute of Corporate Directors.

Robert is a graduate of the University of Toronto (BCom) and of the University of Chicago (MA, Economics).



**Gadi Mayman**
Chief Executive Officer, OFA

As CEO of the OFA, Gadi Mayman is responsible for the Province's borrowing and debt management strategy, and its banking and capital markets relationships. He is also CEO of OEFC.

Prior to joining the Ontario Ministry of Finance, Gadi worked at the Export Development Corporation in Ottawa and in the International Division of the TD Bank. He received a BASc. in Industrial Engineering from the University of Toronto in 1981, and an MBA from the University of Western Ontario in 1988.

Gadi is on the boards of IO and the Ontario Capital Growth Corporation, and is Co-Chair of the Joint Nuclear Funds Investment Committee, a joint OFA and OPG Committee.

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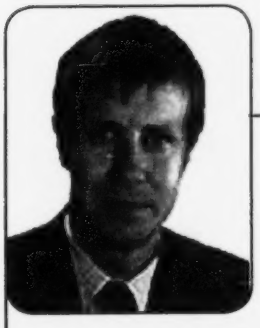

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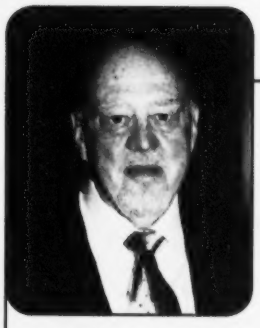

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Gadi is on the boards of IO and the Ontario Capital Growth Corporation, and is Co-Chair of the Joint Nuclear Funds Investment Committee, a joint OFA and OPG Committee.

**Lorraine Bell, CA**

Committees: Audit & Risk Management Committee, Vice-Chair
Human Resources Committee, Member

In addition to her OFA board appointment, Ms. Bell is also a Trustee, Chair of the Audit Committee and member of the Governance Committee for Brookfield Real Estate Services Fund. Ms. Bell has many years of experience in capital markets in particular, derivatives. She was a Vice-President and Director with General Re Financial Products Canada (GRFP), a derivatives organization. Prior to joining GRFP, she worked as a financial consultant, and was at a number of corporations including Prudential Global Funding and Citibank Canada. Before Citibank Canada, Lorraine was with Touche Ross & Co (now Deloitte & Touche) as a member of the audit group and she obtained her CA designation at that time.

She is an active volunteer and past Board member of a number of charitable organizations in Ontario. Lorraine is also a member of the Institute of Corporate Directors and a Director of the Associates of the University of Toronto, Inc.

**Mario Ferrara**

Committee: Audit & Risk Management Committee, Chair

Before his appointment to the OFA Board, Mario was Managing Director and Head of the Government Finance Group at Scotia Capital in Toronto. The Group provided a wide range of financial advice and executed financing transactions for the firm's government and government-related clients.

Mario's investment management experience includes senior positions in the private and public sector. As Vice-President, Investments at E-L Financial Corporation, he was head of the investment group with direct responsibility for managing the fixed-income portfolios of the company's life and casualty insurance subsidiaries. Prior to joining E-L Financial, Mario spent 12 years at Ontario Hydro in a number of finance-related positions including portfolio manager of the fixed-income assets of the Ontario Hydro Pension Plan. Later at Ontario Hydro, he was Assistant Treasurer-Corporate with responsibility for management, development and execution of funding plans, investor relations and corporate insurance.

Mario holds a BCom and MBA from McMaster University.

**Phil Howell**

Committee: Audit & Risk Management Committee, Member

Phil Howell was appointed the Chief Executive Officer and Superintendent, Financial Services Commission of Ontario effective August 19, 2009.

Previously, Mr. Howell served as the Deputy Minister of Economic Development for the Ontario government. Prior to that appointment, he was the Deputy Minister of Tourism. He moved to Tourism from the Ministry of Finance where he was the Associate Deputy Minister of Finance, responsible for Treasury Board.

Trained as an economist with post graduate training from the London School of Economics and the University of Toronto, Phil's career has spanned over thirty years in both the public and private sectors beginning with the Bank of Canada. His OPS career began in the Economic Policy Branch in the former Ministry of Treasury, Economics and Intergovernmental Affairs.

He left the OPS in the mid 1980s and during the following several years worked with a major Canadian brokerage house, the Conference Board of Canada and a chartered bank. Phil returned to the OPS as director of the Industrial Policy Branch, Ministry of Industry, Trade and Technology where he spent several interesting and challenging years before returning to the Ministry of Finance as director of the Taxation Policy Branch in 1999. Subsequently, he served as the ADM of the Office of Economic Policy and the Chief Economist for the Province.

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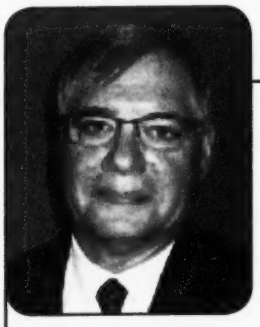

**Richard J. Kostoff**

Committee: Human Resources Committee, Member

Richard is a former Deputy Chair of TD Securities with 35 years of experience in the investment industry. In that role, he was responsible for senior capital markets coverage related to a wide variety of government, infrastructure and corporate financing assignments.

Over the course of his career, Richard's senior management responsibilities have included fixed income sales and trading, derivative marketing and equity and debt capital markets origination. In addition to TD Securities, Richard has held senior positions at RBC Dominion Securities (Director), Gordon Capital (Partner), Pemberton Securities (Senior Vice-President) and Midland Doherty (Vice-President). He started his career at Canada Life Assurance Company as a Junior Fixed Income Trader in 1972.

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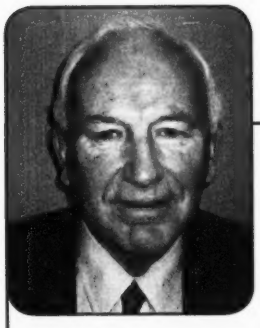

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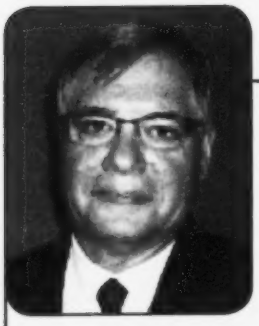

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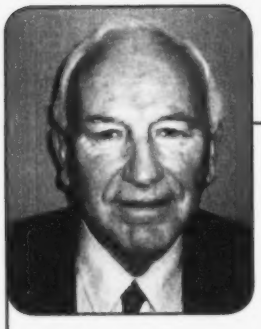

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Dagmar is actively involved in various charitable institutions.

# Risk Management Policies and Procedures

OFA risk management policies and procedures provide for the management of risk exposures created by capital markets activities. Current policies and procedures address market, credit and operational risk exposures as they pertain to the Province's debt and derivatives portfolios and capital markets transactions.

The policies were developed following the guidelines and directives of regulatory bodies, such as the Office of the Superintendent of Financial Institutions of Canada, the Bank for International Settlements and in consultation with Canadian bank representatives on their risk management practices.

The Board approves risk management policies and monitors the performance of capital markets activities.

***Market Risk Policy***

Market risk is the risk of financial loss attributed to changes in interest rates and foreign exchange rates. This policy provides a framework for borrowing activities and integrates several aspects dealing with the management of market risk. The policy includes several limits:

- Foreign Exchange Limit: unhedged foreign currency exposure is limited to 5 per cent of debt issued for provincial purposes. Unhedged foreign exchange exposures are limited to Group of Seven currencies and the Swiss franc.

- Net Interest Rate Resetting Limit: the interest rate resetting risk exposure is the sum of maturities and floating-rate debt (net of liquid reserves) over the next 12 months, and is limited to a maximum of 35 per cent of debt issued for provincial purposes.

- IOD Loss Limit: the total amount of financial losses resulting from market risk cannot exceed 3 per cent of budgeted IOD for a fiscal year. In addition, the CEO establishes a trigger level to ensure losses from market activities will not reach the debt cost loss limit. The trigger level is included in the Annual Financing, Debt and Electricity Management Plan.

The OFA identifies and quantifies current and potential exposures to market risk and ensures risk exposures and losses remain within approved exposure and loss limits. Exposure to market risk is measured and reported daily.

***Credit Risk Policy***

Credit risk is the risk of loss in which a counterparty does not meet or defaults on its obligations. Credit risk arises when the OFA undertakes financial and derivative transactions. The minimum credit rating of a counterparty for a new swap transaction is typically "AA minus", and "R1-mid" (and "A-1" or "P-1") for money market investments. The resulting exposure is capped at mark-to-market limits depending on the counterparty's credit rating and capital base. Concentration limits are also in place to limit exposure. Credit exposure is measured and reported daily.

***Policy on the Use of Derivatives and Other Financial Instruments***

Use of derivatives and other financial instruments is restricted to those which the OFA can price and whose risk exposures can be measured by the OFA. Derivatives are used to manage exposures arising from existing and planned debt issues in a sound and cost-effective manner consistent with the Annual Financing, Debt and Electricity Management Plan. Risks arising from the use of derivatives are monitored and managed prudently.

***Risk Management Reporting Policy***

At its regular quarterly meetings, the Board is kept informed of the OFA's activities:

- The CEO provides the Board with a progress report on the implementation of the Annual Financing, Debt and Electricity Management Plan, staffing and other administrative and operational matters. The CEO also reports on the OFA's compliance with applicable government directives.

- The Director of Risk Control reports on program exposures and performance as well as exceptions to policies.

- Management is kept informed of OFA's risk exposures and positions on a daily basis.

***Operational Risk***

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people or systems or external events. Each division manages operational risk through reviews and improvements of work processes, documented policies and procedures, data processing systems, contingency plans and staff training.

The OFA maintains a Business Continuity Plan (which covers OEFC's operations) that is regularly updated to facilitate the continuation of essential operational functions with a minimum of disruption in the event of an emergency.

# Appendices

Ontario's Credit Ratings

Additional Sources of Information

## Ontario's Credit Ratings

A credit rating is a current assessment of the creditworthiness of a borrower with respect to a specified obligation. It indicates the capacity and willingness of a borrower to pay interest and principal in a timely manner.

***Long-Term Ratings***

Long-term ratings are assigned a letter grade ranging from investment grade, to speculative grade, to highly speculative or default. Ratings within each category may include a "plus" or "minus" (or a high or low) to indicate the relative strength of rating within that category. The current long-term ratings of the Province are as follows:

- Moody's Investors Service — Aa1
- Standard & Poor's — AA minus
- DBRS — AA (low)

***Short-Term Ratings***

Short-term ratings are for debt maturities of less than one year. Ratings are graded into several categories, ranging from the highest-quality obligations to default. The current short-term ratings of the Province are as follows:

- Moody's Investors Service — P-1
- Standard & Poor's — A-1+
- DBRS — R-1 (mid)

## Additional Sources of Information

***www.ofina.on.ca***

The website provides information on Ontario's borrowing program and debt, and contains publications from the OFA.

***Ontario Budget***

The Borrowing and Debt Management chapter discusses the Province's borrowing and debt management activities for the fiscal year ended, and outlines the outlook for the upcoming fiscal year.

***Quarterly Finances – OFA Bulletin***

The OFA Bulletin provides quarterly updates of the government's annual budget forecast. The full set of quarterly finances information is also available on the Ministry of Finance website, www.fin.gov.on.ca.

***Form 18-k***

This is the Province's annual report to the U.S. Securities and Exchange Commission (SEC).

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